

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: July 12, 2007
POSITION: Oppose unless amended

BILL NUMBER: SB 754
AUTHOR: C. Kehoe

BILL SUMMARY: State Property: Lease

This bill would authorize the Director of the Department of General Services (DGS) to lease specified parcels that are owned by the state and used for the benefit of the Department of Motor Vehicles (DMV) for a term of years determined by the director.

FISCAL SUMMARY

According to DMV staff, the cost to implement the bill would be minor and absorbable. It appears that this estimate does not include the cost for DGS professional services, which DMV would pay from its support budget. We understand DGS and DMV are in the process of defining the scope of work, but cost estimates are not available at this time.

The proceeds from the sale or lease of existing DMV offices would be appropriately deposited in the Motor Vehicle Account (MVA) because the properties were originally purchased with MVA funds. Assuming DGS is able to contract for the proposed leases, this bill could generate unknown, but potentially significant, ongoing revenue for the Motor Vehicle Account.

COMMENTS

While the Department of Finance is supportive of DMV pursuing alternative methods to maximize the use of state lands and facilities and offset costs, Finance opposes the bill unless it is amended to delete language that DGS be reimbursed for services through the lease proceeds. This could preclude DGS from being paid for work in a timely manner and would prevent payment if a lease is not made. DGS and DMV should use the regular billing or interagency agreement processes to fund administrative costs.

Analyst/Principal (0744) R.Williams	Date	Program Budget Manager Mark Hill	Date
--	------	-------------------------------------	------

Department Deputy Director	Date
----------------------------	------

Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
---------------	-----------------------------

C. Kehoe

July 12, 2007

SB 754

ANALYSIS**A. Programmatic Analysis****Current law:**

- Authorizes the Department of General Services (DGS) to provide for the sale, lease, or transfer of surplus state property.
- Provides that the DGS, with the consent of the state agency concerned, may lease for a period of no more than five years, any real or personal property belonging to the state.
- Allows for the DGS to lease any real or personal property belonging to the state for a period exceeding five years, if approved by the Legislature.

This bill would:

- Authorize the DGS, with the consent of Department of Motor Vehicles (DMV), to lease or exchange, for a period determined by the director, specified properties that are acquired and used by the state for the benefit of the DMV. Each lease would authorize the lessee to sublease for commercial, retail or residential uses the portion of property that is not needed for use by the state. All rental proceeds from the lease or exchange of the property would be deposited into the Motor Vehicle Account (MVA) for expenditure by the DMV.
- Authorize the leasing of three properties belonging to the DMV located in San Francisco, San Diego, and Rancho Cucamonga.
- Require the DGS and DMV to jointly notify the Joint Legislative Budget Committee when the DGS enters into any lease for a period of 30 years or more and report to the committee the terms and conditions of any lease at least 45 days prior to entering into that lease.
- Provide that DGS be reimbursed for its costs from the resulting lease or exchange proceeds.

Discussion: According to staff at the DMV, this bill would allow the Department to lease three state-owned parcels to developers who would construct a mixed use high-rise building on each site, with the intent that these facilities include adequate space and parking for the DMV to continue serving the community. The developers would make lease payments to the DMV and sub-lease any unused space to other entities for commercial, retail, or residential use. This would enable the DMV to pursue alternative methods to replace antiquated facilities that do not meet DMV's programmatic needs at no cost to the state.

Finance recommends that the bill be amended to delete the language that provides that DGS be reimbursed for professional services from the proceeds of leases authorizes by the bill. As outlined in the Fiscal Analysis, this language is unnecessary and could actually preclude DGS from being paid if ultimately negotiations do not result in lease payments.

We understand that these transactions are complex and require skills from DGS staff from both the leasing and capital outlay disciplines. DGS routinely is paid by client agencies for services it provides, and billing processes are already in place. If these transactions are more complex or fall outside of DGS's normal services and rates, DGS and DMV could enter into an interagency agreement.

AUTHOR

AMENDMENT DATE

BILL NUMBER

C. Kehoe

July 12, 2007

SB 754

B. Fiscal Analysis

According to DMV staff, the cost to implement the bill is would be minor an absorbable. It appears that this estimate does not include the cost for DGS professional services, which DMV would pay from its support budget. We understand DGS and DMV are in the process of defining the scope of work, but cost estimates are not available at this time.

The proceeds from the sale or lease of existing DMV offices would be appropriately deposited in the Motor Vehicle Account (MVA) because the properties were originally purchased with MVA funds. Assuming DGS is able to contract for the proposed leases, this bill could generate unknown, but potentially significant, on going revenue for the Motor Vehicle Account.

Finance notes concern with the recent amendment that specifies that DGS be reimbursed for costs from proceeds from the sale of the property. Since the bill does not appropriate or transfer funds, funding would need to be provided through the budget process. Additionally, this language does not appear to require payment for DGS services until negotiations have been completed, which may span more than one fiscal year. As referenced above, DGS and DMV should use existing administrative processes for DMV to pay DGS for services.

		SO	(Fiscal Impact by Fiscal Year)							
Code/Department		LA	(Dollars in Thousands)							
Agency or Revenue		CO	PROP							Fund
Type		RV	98	FC	2007-2008	FC	2008-2009	FC	2009-2010	Code
2740/DMV		SO	No		-----	See Fiscal Analysis	-----			0044
5900/Other Recpt		RV	No		Unknown, but potentially significant					0044
<u>Fund Code</u>	<u>Title</u>									
0044	Motor Vehicle Account. STF									

Suggested Amendments
SB 754 (As amended June 27, 2007)

Amendment 1

On Page 4, strike out lines 18 through 22, and on line 23, strike out “(f)” and insert “(e)”